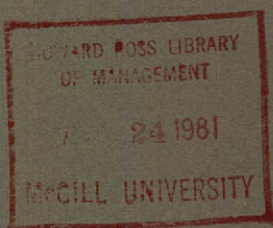


La Luz Mines Limited Shareholders Report

FOR THE SIX MONTHS ENDED
DECEMBER 31, 1979

La Luz



La Luz

BOARD OF DIRECTORS

Robert E. Fasken, Mississauga, Ontario
Mining Executive, President, United Siscoe Mines Limited

K. G. R. Gwynne-Timothy, Q.C., Toronto, Ontario
Barrister and Solicitor

William J. McCormick, Oakville, Ontario
Barrister and Solicitor

Brian K. Meikle, Mississauga, Ontario
Geologist, Vice President, Operations, Camflo Mines Limited

Robert M. Smith, Oakville, Ontario
Mining Engineer, President, Camflo Mines Limited

OFFICERS

Robert M. Smith — *President*

Robert E. Fasken — *Vice President*

Brian K. Meikle — *Vice President, Operations*

David Doig — *Vice President*

C. Bruce Burton — *Vice President, Finance*

William R. Robertson — *Secretary*

Kenneth E. Elrick — *Treasurer*

TRANSFER AGENT AND REGISTRAR

Crown Trust Company
P.O. Box 38
1 First Canadian Place
Toronto, Canada

AUDITORS

Thorne Riddell
Toronto, Canada

EXECUTIVE AND HEAD OFFICE

Suite 3001, South Tower, P.O. Box 45
Royal Bank Plaza
Toronto, Canada M5J 2J1

ANNUAL MEETING OF SHAREHOLDERS

May 23, 1980, 10:00 a.m.
York Room, Royal York Hotel
Toronto, Canada

SHARE LISTING

The Toronto Stock Exchange
Share Symbol: LAZ

BANKERS

The Royal Bank of Canada
Toronto, Canada

Directors' Report to the Shareholders

As a result of the change in fiscal year end of your Company from June 30 to December 31 this report is for the six months to December 31, 1979.

Your Company's year end now coincides with the fiscal year end of the principal shareholder, Camflo Mines Limited which has a 58% interest in La Luz.

FINANCIAL

In the latest six month period ending December 31, 1979, the Company's share of revenues from coal operations in Ohio was \$6,811,352 compared with \$4,835,533 for the six month period ending December 31, 1978. La Luz's share of revenue from coal operations for the twelve months ended June 30, 1979 was \$10,431,102. (All dollars in this report are in U.S. currency.)

The consolidated net loss for the six months to December 31, 1979 after an extraordinary gain of \$55,164 was \$1,774,185 or \$1.12 per share compared with income of \$943,144 or \$.60 per share after an extraordinary gain of \$1,860,538 during the six month period ending December 31, 1978. In the 12 months to June 30, 1979, the Company reported a consolidated net loss of \$1,465,984 or \$0.93 per share, after extraordinary gains of \$2,354,452.

As at June 30, 1979, C.M.L. Inc., a wholly-owned subsidiary of Camflo Mines Limited, had advanced \$5,114,498 to La Luz Ohio Inc., the wholly-owned U.S. subsidiary of La Luz. By December 31, 1979, C.M.L. Inc. had advanced an additional \$1,093,217 to La Luz Ohio.

Other revenues during the six months ending December 31, 1979 include \$6,135 of royalties from the tungsten mine in California, natural gas income of \$66,620 and investment and other income of \$72,525. Comparable revenues in the six month period ending December 31, 1978 were \$10,797 of royalties, \$87,386 of natural gas income and \$233,258 of investment and other income.

At December 31, 1979, La Luz held 27,703 shares of Rosario Resources Corporation and 100,000 shares of Camflo Mines Limited. These investments had a market value of \$3,101,000 at December 31, 1979. The Company has subsequently sold 10,000 shares of Rosario.

The profitability of the two coal mines in Ohio continues to be seriously hampered by extraordinarily high interest rates and rising costs. The impact of these interest rates has seriously affected enterprises which entered into financial commitments and capital improvement programs through debt financing when interest rates were substantially lower.

Modern efficient coal mining is large scale and highly capital intensive. The two Ohio coal mines are excellent facilities capable of producing large tonnages of coal for use in generation of electricity by nearby Ohio utilities. While prices of coal have improved, present market conditions are such that the increases have not kept pace with escalating inflation. New regulations in the environmental area have added to costs at a time when the U.S. Government's stated desire is to reduce U.S. dependency on foreign oil imports through encouraging the use of domestic energy sources, including coal.

Muskingum Mining Company — A partnership between La Luz Ohio and Gilbert Fuel Co. operates the Muskingum Mining Company which produced 297,762 tons of coal in the six months ending December 31, 1979 compared with 270,086 tons in the six months ending December 31, 1978. In the first three months of 1980 production averaged 61,000 tons monthly. This production rate exceeds the contract requirement with Columbus and Southern Ohio Electric Company which calls for the delivery of 708,000 tons annually to the Conesville generating plant.

A second 46-cubic yard shovel has been operating since January, 1980. The Muskingum operation now has mining capacity in excess of contract

requirements. While discussions have been carried out regarding the possible installation of a coal washing plant and an increase in the production of raw coal, a decision to proceed has been deferred.

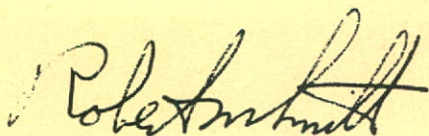
Crown City Mine — This is a Joint Venture between La Luz Ohio and Gilbert Fuel. Crown City produced 213,186 tons of coal in the last six months of 1979 compared to 192,689 tons in the last six months of 1978. Most recently, production has been at the rate of 32,000 tons monthly of washed, or upgraded coal. A washing plant with a rated capacity of 500,000 tons of washed coal annually began operating late in 1979. The plant has experienced some start-up problems, however modifications are being made to the circuits affected to improve efficiency and bring the plant up to planned production levels. The mine itself is functioning smoothly.

OUTLOOK

The coal industry in the eastern United States is in considerable disarray. Mines are being forced to close through the impact of high interest rates, inflation, environmental regulations and the current softness in coal markets.

With modern efficient equipment and sound financial backing, the La Luz coal interests can be expected to come through this difficult period in much better fashion than many other coal operations, but it now appears that losses, including the cost of servicing debt and depreciation, will continue during 1980.

On behalf of the Board of Directors.

A handwritten signature in dark ink, appearing to read "Robert M. Smith", written in a cursive style.

R. M. Smith,
President

April 18, 1980

Consolidated Balance Sheet

(Expressed in U.S. Dollars)

Assets	December 31, 1979	June 30, 1979
CURRENT ASSETS		
Cash and term deposits	\$ 197,334	\$ 668,007
Accounts receivable (note 2)	1,338,889	1,758,542
Inventories	751,400	574,128
Prepaid expenses	101,306	170,975
	<u>2,388,929</u>	<u>3,171,652</u>
INVESTMENTS IN AND ADVANCES TO OTHER COMPANIES (note 3)	1,664,297	3,878,522
FIXED ASSETS		
Property, buildings and equipment, at cost	20,124,093	17,293,055
Less accumulated depreciation and depletion	4,917,287	3,917,761
	<u>15,206,806</u>	<u>13,375,294</u>
OTHER ASSETS		
Preproduction expenditures, less amortization	1,149,719	1,185,575
Petroleum and natural gas interests, less depletion	365,748	262,507
Advance royalty payments (note 4)	303,818	228,457
Other	395,079	220,470
	<u>2,214,364</u>	<u>1,897,009</u>
	<u>\$ 21,474,396</u>	<u>\$ 22,322,477</u>
Liabilities		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 5)	\$ 3,493,656	\$ 3,250,144
Advance payable to parent company, bearing interest	859,275	816,525
Current portion of long term debt	1,816,803	1,558,670
	<u>6,169,734</u>	<u>5,625,339</u>
LONG TERM DEBT (note 6)	<u>14,077,262</u>	<u>13,695,553</u>
Shareholders' Equity		
CAPITAL STOCK		
Authorized — 3,000,000 shares without par value		
Issued — 1,580,759 shares	3,372,829	3,372,829
DEFICIT	<u>2,145,429</u>	<u>371,244</u>
	<u>1,227,400</u>	<u>3,001,585</u>
	<u>\$ 21,474,396</u>	<u>\$ 22,322,477</u>

CONTINGENT LIABILITIES AND COMMITMENTS (note 7)

Approved on behalf of the Board:


R. E. Fasken, Director


R. M. Smith, Director

Consolidated Statement of Income

(Expressed in U.S. Dollars)

	Six months ended December 31,		Year ended June 30,
	1979	1978	1979
	(restated)		
Revenue			
Coal	\$ 6,811,352	\$ 4,835,533	\$ 10,431,102
Petroleum and natural gas	66,620	87,386	158,735
Royalties	6,135	10,797	60,147
	<u>6,884,107</u>	<u>4,933,716</u>	<u>10,649,984</u>
Operating and administrative expenses other than items set out below (note 8)	6,795,946	4,453,374	11,345,460
Depreciation, depletion and amortization	877,166	819,328	1,704,131
Interest (note 8)	1,112,869	811,666	1,620,728
	<u>8,785,981</u>	<u>6,084,368</u>	<u>14,670,319</u>
Loss before the undernoted	(1,901,874)	(1,150,652)	(4,020,335)
Investment and other income (note 8)	72,525	233,258	248,366
Loss before income taxes and extraordinary items	(1,829,349)	(917,394)	(3,771,969)
Income taxes			48,467
Loss before extraordinary items	(1,829,349)	(917,394)	(3,820,436)
Extraordinary items (note 9)	55,164	1,860,538	2,354,452
INCOME (LOSS) FOR THE PERIOD	<u>\$ (1,774,185)</u>	<u>\$ 943,144</u>	<u>\$ (1,465,984)</u>
INCOME (LOSS) PER SHARE			
(Loss) before extraordinary items	\$ (1.16)	\$ (.58)	\$ (2.42)
Income (loss) for the period	\$ (1.12)	\$.60	\$ (.93)

Consolidated Statement of Retained Earnings (Deficit)

(Expressed in U.S. Dollars)

	Six months ended December 31,		Year ended June 30,
	1979	1978	1979
	(restated)		
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF PERIOD	\$ (371,244)	\$ 1,094,740	\$ 1,094,740
Income (loss) for the period	(1,774,185)	943,144	(1,465,984)
RETAINED EARNINGS (DEFICIT) AT END OF PERIOD ...	<u>\$ (2,145,429)</u>	<u>\$ 2,037,884</u>	<u>\$ (371,244)</u>

Consolidated Statement of Changes in Financial Position

(Expressed in U.S. Dollars)

	Six months ended December 31, 1979 1978		Year ended June 30, 1979
	(restated)		
WORKING CAPITAL DERIVED FROM			
Proceeds from			
Sale of fixed assets		\$ 6,166,200	\$ 6,169,364
Disposal of investment in other company	\$ 132,164		1,265,421
Disposal of petroleum and natural gas interests			31,378
Advances from affiliated and other related companies	1,606,314	518,892	1,682,419
Increase in long term debt	1,853,362	1,164,926	2,652,229
	<u>3,591,840</u>	<u>7,850,018</u>	<u>11,800,811</u>
WORKING CAPITAL APPLIED TO			
Operations	959,829	105,983	2,116,303
Additions to fixed assets	2,649,357	1,472,403	3,248,417
Retirement of long term debt	940,742	4,554,327	4,891,059
Other assets	369,030	(205,836)	117,746
	<u>4,918,958</u>	<u>5,926,877</u>	<u>10,373,525</u>
INCREASE (DECREASE) IN WORKING CAPITAL			
DEFICIENCY	1,327,118	(1,923,141)	(1,427,286)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF			
PERIOD	2,453,687	3,880,973	3,880,973
WORKING CAPITAL DEFICIENCY AT END OF PERIOD	<u>\$ 3,780,805</u>	<u>\$ 1,957,832</u>	<u>\$ 2,453,687</u>

AUDITORS' REPORT

To the Shareholders of
La Luz Mines Limited

We have examined the consolidated balance sheet of La Luz Mines Limited as at December 31, 1979 and June 30, 1979 and the consolidated statements of income, retained earnings (deficit) and changes in financial position for the six months ended December 31, 1979 and 1978 and the year ended June 30, 1979. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and June 30, 1979 and the results of its operations and the changes in its financial position for the six month periods ended December 31, 1979 and 1978 and the year ended June 30, 1979 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
March 28, 1980

THORNE RIDDELL
Chartered Accountants

Notes to Consolidated Financial Statements

DECEMBER 31, 1979
(Expressed in U.S. Dollars)

1. Summary of Significant Accounting Policies

(a) Basis of consolidation

These consolidated financial statements include the accounts of the company and its subsidiary companies Panaminas, Incorporated and La Luz Ohio, Inc. each of which is wholly-owned. All material intercompany transactions have been eliminated.

The company through its subsidiary La Luz Ohio, Inc. is a participant with Gilbert Fuel Co. in certain coal mining operations in the State of Ohio, U.S.A., viz:

- (i) as joint venturers mining the Crown City Mine property, in the name of Crown City Mining Company.
- (ii) as partners in the Muskingum Mining Company, mining the Gilbert I and Gilbert II mine properties (Gilbert mines).

Investments in enterprises comprising joint ventures and partnerships are accounted for on a proportionate consolidation basis whereby the company reflects its pro rata share of the assets, liabilities, revenues and expense of each of the enterprises in which it participates. Substantially all of the activities of the company are carried on through the joint venture and partnership.

(b) Inventories

Inventories consist of coal and mine operating supplies. Coal inventory is recorded at the lower of cost and net realizable value and mine operating supplies are valued at cost.

(c) Depreciation, depletion and amortization

Depreciation is provided on property, buildings and equipment using the straight line, declining balance and unit of production methods.

The unit of production method is used to compute depletion on coal lands and to amortize the preproduction expenditures relating to the processing of the coal.

The company follows the full cost method of accounting for its petroleum and natural gas interests whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing property, costs of drilling both productive and unproductive wells and related production equipment. Proceeds received on disposal of properties are credited against such costs. Depreciation and depletion are provided on the net costs using the composite unit of production method based on total estimated proven reserves.

(d) Basis of translation of Canadian currency

Translation of Canadian currency has been made as follows:

- (i) current assets and liabilities, at exchange rates prevailing at the year end.
- (ii) all other assets and liabilities at exchange rates prevailing at the date the assets were acquired or the liabilities incurred.
- (iii) revenue and expenses at the average exchange rate for the year except for depreciation, depletion and amortization which are based on the cost of assets as translated.

(e) Reclamation costs

Reclamation costs are accrued in the accounts based on estimates of anticipated actual costs per acre of completing the restoration of acreage affected by mining operations as determined by a mining engineer's survey.

(f) Restatement, six months ended December 31, 1978

The figures for the six month period ended December 31, 1978 have been restated to conform with the basis of presentation retroactively adopted for the year ended June 30, 1979.

(g) Change of year end

During the period the company changed its fiscal year end from June 30 to December 31.

2. Accounts Receivable

	December 31, 1979	June 30, 1979
Trade and other	\$ 1,301,044	\$ 1,458,542
Note receivable from related party, bearing interest	37,845	300,000
	<u>\$ 1,338,889</u>	<u>\$ 1,758,542</u>

3. Investments in and Advances to Other Companies

	December 31, 1979	June 30, 1979
Shares, at cost (market value \$3,101,000; June 30, 1979, \$2,177,000)		
Rosario Resources Corporation	\$ 426,493	\$ 503,493
Parent company, Camflo Mines Limited	1,237,804	1,237,804
	<u>1,664,297</u>	<u>1,741,297</u>
Advances		
Amounts recoverable from interests of the other joint venturer and partner in the coal enterprises . . .		1,920,250
Advances to related company		216,975
		<u>2,137,225</u>
	<u>\$ 1,664,297</u>	<u>\$ 3,878,522</u>

The company received shares of Rosario Resources Corporation for the sale of certain Nicaraguan mining

assets in 1973. Under the terms of sale the shares were pledged as security for indemnification provided to the purchaser. During 1979 final release of the indemnification was obtained.

4. Advance Royalty Payments

In November, 1978 the coal mining rights in the Gilbert mines were conveyed to New York Life Insurance Company.

New York Life leased the coal mining rights to the partnership, which continues to operate the Gilbert mines. As consideration, the partnership is paying New York Life a coal tonnage royalty of \$3.51 per ton on all coal produced and shipped. The partnership is required to pay a minimum royalty on 700,000 tons per year for twenty years or until royalties on 14 million tons have been paid, whichever first occurs. The lease is for a term of twenty years with successive three year renewals until exhaustion of all coal in place, subject to the lessee's right to surrender the lease at any earlier time when all economically minable coal has been mined or minimum royalties have been paid.

Prepaid royalties accruing but not earned in any lease year are available as a credit against earned royalties due in a subsequent lease year for production in excess of the annual minimum royalty payment required.

5. Accounts Payable and Accrued Liabilities

	December 31, 1979	June 30, 1979
Trade and other	\$ 2,014,308	\$ 1,496,247
Affiliated companies	106,721	140,121
Other related companies	11,283	363,957
Accrued reclamation costs	1,361,344	1,249,819
	<u>\$ 3,493,656</u>	<u>\$ 3,250,144</u>

6. Long Term Debt

	December 31, 1979	June 30, 1979
Notes payable	\$ 4,470,110	\$ 2,115,489
Short term obligations expected to be refinanced	96,230	907,330
Mortgage payable	4,129,000	4,523,000
Capital leases	235,590	214,367
Related parties		
Loan, affiliated company	6,207,715	5,114,498
Notes payable	755,420	1,620,789
Advances		758,750
	<u>15,894,065</u>	<u>15,254,223</u>
Less instalments due within one year	1,816,803	1,558,670
	<u>\$14,077,262</u>	<u>\$13,695,553</u>

Instalments due in each of the next five years are as follows:

1980	\$ 1,816,803
1981	1,783,141
1982	1,689,304
1983	1,616,950
1984	1,568,299

(a) Notes payable

Notes payable to U.S. banks, secured by equipment	\$ 3,490,797	\$ 2,087,989
Royal Bank of Canada	979,313	27,500
	<u>\$ 4,470,110</u>	<u>\$ 2,115,489</u>

The above notes bear interest at rates which vary from 1½% to 2½% above the U.S. prime rate.

The joint venturers have obtained a \$2,250,000 line of credit for the purpose of financing the construction of a coal washing and preparation plant at the Crown City Mine of which \$1,958,625 has been advanced to December 31, 1979. The loan is secured by the coal washing and preparation plant and also by the same collateral as the mortgage payable.

(b) Short term obligations expected to be refinanced.

These include the following in respect of the company's portion:

	December 31, 1979	June 30, 1979
Contract billings for coal washing and preparation plant	\$ 96,230	\$ 356,189
Purchase of equipment subsequently financed by notes payable over five years		454,000
Erection costs of 5561 Marion Shovel		97,141
	<u>\$ 96,230</u>	<u>\$ 907,330</u>

(c) Mortgage payable, Royal Bank of Canada.

Total borrowing from the bank by the joint venture and partnership is evidenced by a single note, payment of which is secured by liens upon substantially all of the assets of both entities.

Principal payments in the amount of \$394,000 are to be made quarterly until January 1, 1985, on which date the entire unpaid balance becomes due. Interest which is payable monthly, is two percent (2%) above the bank's New York prime commercial rate.

In addition to the aforementioned payments, within 90 days after June 30, being the close of their fiscal years, the partnership and joint venture must also make additional annual payments on principal in the amount of 80% of their cash flow as calculated in the loan agreement. Such additional payments shall be applied to principal in inverse order of maturity. As of December 31, 1979, no additional payments have been required.

The mortgage note is also secured by security interest granted in all of the issued and outstanding shares of Gilbert Fuel Co., La Luz Ohio, Inc., and another related company. The company has also pledged its assets excluding its petroleum and natural gas interests to the bank. Camflo Mines Limited has also guaranteed repayment of a portion of the loan.

(d) Capital leases

Capital leases represent the present value of the net minimum lease payments, as at December

31, 1979, calculated at the lessor's implicit interest rates, which vary from 8½% to 11%. The leases are secured by a pledge of certain machinery and equipment.

(e) Related parties

(i) Loan, affiliated company

The loan bears interest at 125% of the U.S. prime interest rate, matures December 31, 1982, and is secured by certain of the company's assets. The lender has agreed to subordinate repayment of principal and interest until the bank mortgage retirement commitments are fulfilled (see note 6(c)).

(ii) Notes payable

Notes payable consist of a note payable by the partnership of \$1,110,840 (June 30, 1979, \$1,164,578) bearing interest at 7% and secured by a pledge of certain equipment and an unsecured note payable by the joint venture to an affiliated company of \$400,000, bearing interest at 18% and due October, 1984.

7. Contingent Liabilities and Commitments

(a) The company and its joint venturer and partner have contracted with Minerals Management Associates, Inc., (a company affiliated with Gilbert Fuel Co.) to manage the coal operations. The manager is remunerated as follows:

- (i) in respect of the Crown City joint venture, the greater of three percent of the sales price of all coal sold and delivered, or \$.20 per ton.
- (ii) in respect of the Muskingum partnership, \$.20 per ton on all coal sold and delivered, and reimbursement for all direct costs incurred, subject to escalation in accordance with changes in the Consumer Price Index.

(b) In consideration of the guarantee of the mortgage payable (note 6(c)), the joint venture and partnership have agreed to pay a commitment fee to Camflo Mines Limited of \$.10 per ton of all coal mined and sold for a period of ten years ending in 1986.

Effective January 1, 1980, the joint venture and partnership have agreed to pay to Camflo Mines Limited a further commitment fee of \$.20 per ton of all coal mined and sold in consideration of its guarantee of certain of the reclamation bonds (note 7(d)).

(c) The company was named as one of 16 defendants in an action filed by J. Ralph Saylor in the United States District Court for the Southern District of New York on February 18, 1965 on behalf of the Tonopah Mining Company of Nevada. In a judgment dated January 14, 1971, the Court concluded that a proposed settlement of \$250,000 was fair and reasonable and was preferable to the continuance of litigation.

An appeal by the plaintiff objecting to the terms of the settlement was allowed by the Appeal Court, and litigation has continued and is still in

progress. By arrangement with another party to the litigation the net liability of the company is limited to approximately 13% of any judgment or settlement.

(d) As of December 31, 1979 the company and its joint venturer and partner have furnished surety bonds in the approximate amount of \$7,786,000 to the State of Ohio to ensure the restoration of land affected by strip mining. Subsequent to December 31, 1979, a further \$3,187,000 of surety bonds have been provided.

(e) Under the terms of the New York Life lease, the Muskingum Mining Company partnership is required to maintain working capital of \$2,000,000. As at December 31, 1979, and subsequent thereto, the partnership was not in compliance with this covenant. New York Life has waived this default to December 31, 1980 in consideration of Camflo Mines Limited undertaking to provide sufficient funds to maintain operations to that date.

8. Related Party Transactions

Sales for the year ended June 30, 1979 included \$5,042,020 (six months ended December 31, 1978, \$4,835,533) made through a related company on the same terms and at similar prices as sales made to others.

Operating and administrative expenses include \$262,144 (six months ended December 31, 1978, \$325,148; year ended June 30, 1979, \$1,211,359) charged by related companies for management fees, equipment rental, hauling charges, administrative and other operating expenses. Interest includes \$559,510 (six months ended December 31, 1978, \$236,016; year ended June 30, 1979, \$605,526) charged by related companies.

Investment and other income includes \$34,200 (six months ended December 31, 1978, \$26,400; year ended June 30, 1979, \$60,011) from an affiliated company.

9. Extraordinary Items

	Six months ended December 31, 1979	1978 (restated)	Year ended June 30, 1979
Gain on sale of investment . . .	\$ 55,164		\$ 493,914
Gain on sale of coal mining rights		\$ 1,860,538	1,860,538
	<u>\$ 55,164</u>	<u>\$ 1,860,538</u>	<u>\$ 2,354,452</u>

10. Other Statutory Information

Remuneration of directors and senior officers, as defined by The Business Corporations Act, Ontario, in the six month period ended December 31, 1979, amounted to \$4,703 (year ended June 30, 1979, \$12,602).

